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PUBLIC ACCOUNTS COMMITTEE
1952-53

FOURTH REPORT

[IMPORT AND SALE OF JAPANESE CLOTH]

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PARLIAMENT SECRETARIAT
NEW DELHI
February, 1953

Composition of the Public Accounts Committee, 1952-53

Shri B. Das—*Chairman.*

MEMBERS

2. Pandit Munishwar Dutt Upadhyay.
3. Shri M. L. Dwivedi.
4. Shri Shree Narayan Das.
5. Shri Tribhuan Narayan Singh.
6. *Shri H. V. Pataskar.
7. Shri Ranbir Singh Chaudhuri.
8. Acharya Shriman Narayan Agarwal
9. Dr. Mono Mohon Das.
10. Pandit Krishna Chandra Sharma
11. Shri Uma Charan Patnaik.
12. Shri V. P. Nayar.
13. Shri B. Ramachandra Reddi
14. Shri G. D. Somani.
15. Shri K. M. Vallatharas.

SECRETARIAT

Shri M. N. Kaul—*Secretary.*

Shri S. L. Shakdher—*Deputy Secretary.*

*Elected on the 11th December, 1952 *vice* Shri Balwant Nagesh Datar resigned.

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INTRODUCTION

I, the Chairman of the Public Accounts Committee having been authorised by the Committee to submit the report on their behalf present this Fourth Report on the 'Import and Sale of Japanese Cloth'.

2. The Public Accounts Committee at their meeting held on the 10th September, 1952 appointed a sub-Committee to investigate into the financial working of the State Trading Scheme, *viz.*, 'Import and Sale of Japanese Cloth' which had resulted in a loss of about Rs. 55 lakhs to the Government of India. The Report (including the proceedings) of the sub-Committee which is appended herewith was considered and approved by the Public Accounts Committee at their meeting held on the 17th February, 1953, and should be treated as the report of the Public Accounts Committee.

3. The Committee wish to draw attention to para. 23 of the Report of the sub-Committee and observe that neither the sub-Committee nor the Committee have investigated into the antecedents of Messrs. Banwarilal and Co., against whom a sum of Rs. 15 lakhs is said to be outstanding. The Committee desire to know whether the financial position of this Company had been ascertained before the cloth was sold to it and on what references and guarantees the transaction was entered into with it. The Committee feel that the Judicial Committee recommended to investigate into the handling of the whole transaction should also enquire whether the financial standing of the Company had been properly verified by the Officers concerned before entering into any business dealings with it.

4. A statement showing the summary of the recommendations is given at the end.

B. DAS,

CHAIRMAN,

PUBLIC ACCOUNTS COMMITTEE.

NEW DELHI;

20th February, 1953.

REPORT
OF THE
SUB-COMMITTEE
ON THE
'IMPORT AND SALE OF JAPANESE CLOTH'

I

Introduction

I the Chairman of the sub-Committee of the Public Accounts Committee, having been authorised by the sub-Committee, present this Report on their behalf on the working of the State Trading Scheme named 'Import and Sale of Japanese Cloth' to the Public Accounts Committee.

2. At the meeting of the Public Accounts Committee held on the 10th September, 1952, a sub-Committee consisting of the following Members of the Committee was appointed to investigate into the financial working of the State Trading Scheme named 'Import and Sale of Japanese Cloth' which had resulted in a loss of about Rs. 55 lakhs to the Government of India:—

Shri T. N. Singh—*Chairman.*

Acharya S. N. Agarwal—*Member.*

Shri B. Ramachandra Reddy—*Member.*

3. The sub-Committee held four sittings. They examined the Secretary, Ministry of Commerce and Industry and the Joint Secretary, Ministry of Finance (I. & C. Division). The sub-Committee could not examine the then Textile Commissioner who had handled the purchase and sale of this cloth as he is at present posted as Minister in the Office of the High Commissioner for India in the United Kingdom.

4. A brief record of the proceedings of each meeting of the sub-Committee has been maintained and forms part of the Report.

5. The sub-Committee place on record their great appreciation of the very valuable assistance given to them in the course of their examination of the Accounts and financial working of this scheme by the Comptroller and Auditor-General of India and his Accountant-General.

T. N. SINGH, M.P.

CHAIRMAN,

SUB-COMMITTEE OF THE PUBLIC ACCOUNTS COMMITTEE.

NEW DELHI;

Dated 5th February, 1953.

II

Origin of the Scheme.

6. The Appropriation Accounts (Civil), 1947-48 (post-partition) disclosed a loss of about Rs. 51 lakhs in the working of the State Trading Scheme 'Import and Sale of Japanese Cloth'. The amount of loss was raised to about Rs. 55 lakhs in the Appropriation Accounts (Civil), 1949-50. This figure included a sum of Rs. 15 lakhs as due from the firm named, Messrs. Banwari Lal & Co.

7. The sub-Committee were informed by the Secretary, Ministry of Commerce and Industry that the main object behind the purchase of 80 million yards of Japanese cloth was that there was a scarcity of cloth in India towards the end of 1946 and in early 1947 and the then Government were anxious to see that the people were clothed adequately. At that time, a message was received from the Indian Embassy, Washington that a large quantity of cloth and yarn of Japanese production was available and could be sold to India if payment was made in U.S. Dollars.

The Commerce Department of the Government of India telegraphed the Indian Embassy on 14th January 1947 indicating requirements of 50 million lbs. of cotton yarn and 120 million yards of cotton cloth 'for clothing the under-clothed rural population'. In the telegram dated 27th January 1947 from the Indian Embassy to the Commerce Department, details of cotton yarn and cloth available and conditions of contract were furnished. In their subsequent telegram, the Indian Embassy emphasised the extreme importance of finalising the transaction, as otherwise, the Government of India might not be able to secure reasonable allocations of finished textiles and cotton yarn for the first half of 1947.

In their telegram dated 7th February 1947, the Government of India accepted 'subject to prices being reasonable' such cotton yarn as could be made available. Likewise, they accepted the breakdown suggested in the Indian Embassy telegram dated 27th January 1947 regarding the purchase of Japanese cotton textiles subject to prices being reasonable.

8. On the 28th February, 1947, a special secraphone message was sent by the late Industry and Supply Department to Shri Dharma Vira, the then Textile Commissioner asking *inter alia* with reference to all details which had been furnished, acceptability of the maximum and minimum quantities of textiles and the specification thereof. He was also asked that if revision of prices was considered necessary, he should communicate at once so that Government could take up the matter with the Indian Embassy, Wishington.

In his secraphone message dated the 5th March, 1947, the Textile Commissioner, Bombay, intimated to Shri Teckchandani, Assistant Secretary, Industry and Supply Department, his acceptance of 7 types of textiles to the extent of 108 million yards in any proportion in which they were available and 12 million yards of finished cloth of specified varieties. He gave no answer to the specific question relating to the revision of prices. He, however, asked whether imports were being arranged as Government transaction or whether they could be through trade channels. It is interesting to note that the Textile Commissioner had himself rejected the request of Messrs. Manekji and Jaysinghji to import Japanese cloth on private account. The Department of Industry and Supply presumed that the Textile Commissioner had no comments to make regarding prices and without confirming it from him, proceeded immediately to finalise the contract. Accordingly, the Indian Embassy in Washington was asked on the 28th March, 1947 to sign the contract on behalf of the Government of India.

9. The sub-Committee find that for the first time on the 29th April, 1947, the Textile Commissioner stated as below in his secraphone message:

> "* * *(.) would prefer imports through trade especially because of the price considerations noted below(.)
>
> 2. Comparison of f.o.b. prices at Japanese port with *ex*-mill ceiling prices of comparable varieties manufactured in India indicate that landed cost of Japanese textiles would be 35 to 85 per cent. in excess of Indian prices(.) If contracts are not already signed would advise pressing for reduction in prices (.) * * * *".

The sub-Committee observe that the Textile Commissioner should have been aware from the Government of India's telegram to the Indian Embassy, Washington, dated the 28th March, 1947 and from the Indian Embassy's telegram of the 16th April, 1947 (copies of which had already been sent to him) that the contract would have been concluded.

10. It may be noted that the Textile Commissioner immediately on receipt of enquiry from the Department of Industry and Supply in their secraphone message of the 28th February, 1947 consulted the Chairman, Textile Control Board (Shri Krishnaraj Thackersay) about the suitability for Indian market of the types of Japanese textiles offered and their prices. The Chairman, Textile Control

Board in the course of his reply to the Textile Commissioner on the 5th March, 1947 stated as follows: —

"* * * * *

The price given in the last column in the above statement (furnished by the Chairman, Textile Control Board) are the prices quoted f.o.b. Japanese port. The landed cost in India will be 12 to 12½ per cent. higher than these prices after freight and insurance are taken into account. The above comparison is given for your guidance. I leave it to the Government of India to decide how much quantities of Japanese cotton textiles may be imported into India in view of the very great disparity in prices."

For the sake of reference, the statement referred to above showing a comparison of the f.o.b. prices at Japanese Port converted into annas per lineal yard of the undermentioned qualities of cloth given by the Chairman, Textile Control Board is reproduced below: —

Description	Number	*Ex*-mill ceiling prices in India Annas per yard	f. o. b. prices Japanese port Annas per yard
1. Shirtings	2002	0 6 11	0 8 11·4
2. ,,	2004	0 7 10	0 12 4·2
3. Gray sheetings	2022	0 6 7	0 11 1·2
4. ,,	2025	0 6 1	0 12 2·4
5. Gray Jeans	2041	0 7 1	0 10 0·6

It is clear from the statement of the Chairman, Textile Control Board that including transport and other charges, the c.i.f. prices of Japanese cloth in India, would be 45 to 100 per cent. higher than the prevailing *ex*-mill ceiling prices in India. If to this were added the customs and clearance charges, the cost at Bombay would be more than 200 to 300 per cent. of the Indian *ex*-mill ceiling prices. And yet it is surprising that the Textile Commissioner withheld this information when he sent his message on the 5th March, 1947 to the Department of Industry and Supply about his acceptance of the specifications and quantities of Japanese cloth. In any case, the Textile Commissioner's secraphone message of the 29th April, 1947 from Calcutta showed that he was fully cognisant of the fact that Government would be put to loss if import was on Government Account. This message appears to have been sent only after the

Financial Adviser had commented adversely *vide* para. 12 below. The sub-Committee cannot but come to the conclusion that the Textile Commissioner, for reasons which are not known, failed to communicate the fact of higher prices and consequent loss to Government until after the transaction was completed.

11. The sub-Committee also observe that although the Officers dealing with this case in the Industry and Supply Department were conscious of the fact that the Textile Commissioner had omitted to answer the specific question of prices, yet they did **not** press for a specific reply before giving instructions for the conclusion of the Contract. The Officers concerned namely, the Deputy Secretary and Assistant Secretary in the Department of Industry and Supply noted on the relevant file that the Textile Commissioner had made no comments and presumably he had none to offer. Furthermore, they also did not think it necessary to send an answer to the Textile Commissioner's specific enquiry as to whether the import was on Government Account or through private channels, until the 28th March 1947 by which date the Indian Embassy had been definitely told to proceed with the contract.

Financial implications of the scheme

12. The sub-Committee further find that the Textile Commissioner, Bombay, had, for reasons which are not known to the sub-Committee failed to consult his Financial Adviser on the trading aspect of the transaction on Government Account with due regard to the cost price of the imports and the prevailing Indian prices and had also kept back from him the advice of the Chairman, Textile Control Board. It was only when the Financial Adviser was asked to evolve the necessary accounting arrangement for the Japanese cloth imports after the orders for signing the contract had been issued that he saw the relevant case and immediately stated as follows:—

> "On the whole, I feel that this purchase at prices considerably higher than the ceiling prices of similar cloth manufactured in India, is rather an unhappy one. It appears that we rushed into the purchase without fully considering all implications. It is all the more necessary, therefore, to evolve a plan for its marketing in India at a very early date, so that the cloth is quickly put into circulation and on terms which would involve no loss to Government. Our inspection machinery in Japan for the inspection of this six year old material should also be fully efficient and rigid in application".

The sub-Committee have not been apprised of any reasons for the failure on the part of the Textile Commissioner to consult the

Financial Adviser accredited to his Office on the trading aspect of the scheme in the light of the relevant information regarding comparative prices and before advising the Government of India to purchase the cloth.

It is, however, relevant to note that the Textile Commissioner chose to intimate to the Department of Industry and Supply the extreme disparity in prices on the 29th April, 1947 from Calcutta after the Financial Adviser had noted as above.

Responsibility of the Finance Department

13. The sub-Committee also examined the financial implications of the scheme. They find that the Finance Department (O.B.) agreed not to oppose the import of cloth on foreign exchange grounds although it was brought to their notice that the dollar commitments according to the revised estimates would amount to 17·192 million dollars in the case of cloth alone. The Sterling Balances Agreement did not come into operation until the 15th August, 1947, by which time 4¾ million dollars had already been paid from U.K. Government's Central Reserves. Moreover, by the middle of August 1947, adequate convertible currency had been released to the extent of £65 million for 6 months ending 15th January, 1948. It is, however, surprising that the Department of Finance (Supply) did not care to examine the scheme before they agreed to the import of Japanese cloth at such higher prices. If they had only gone through the correspondence between the Department of Industry and Supply and the Textile Commissioner they should have asked for the comments of the latter and their own Financial Adviser at Bombay regarding the prices before giving their concurrence to the signing of the contract. The sub-Committee cannot help feeling that this case which involved Six Crores of Rupees was dealt with in a perfunctory manner.

Disposal of cloth outside India

14. By July 1947, it became clear that the cloth would become unsaleable in India owing to high prices and even unsuitability of certain types. The Textile Commissioner, therefore, in his D.O. letter dated the 4th July, 1947 to the Secretary, Industry and Supply Department, suggested the re-export of the cloth outside India to Siam or Indonesia as a barter against foodgrains or for sale in Middle East countries as he considered that the bulk of the cloth being of higher price and width being too small, would not be marketable in India, and that the Provincial Governments would not be interested to take any of them. It is interesting to note that the Textile Commissioner had himself advised the Government of India on the 5th March, 1947 to go in for these varieties of cloth

although he should have been fully aware of the width of the cloth, as the full specification and samples had been sent to him.

The idea of re-export was not accepted in the initial stages by the Department of Industries and Supplies as is evidenced from the following D.O. letter addressed to the Joint Textile Commissioner, Bombay on the 17th July, 1947:

> "Apart from the consideration that the food supplying countries, such as Siam or Indonesia, may object to receiving cloth at higher prices when they are expected to charge reasonable price for foodgrains, our reputation abroad for export of cotton textiles may suffer inasmuch as the cloth which India has not produced will be passed on in the export markets as Indian cloth at very high prices. Besides, the export of cotton textiles which is debitable to the global export quota is to be channelised through established exporters. I am doubtful whether the established exporters will care to purchase this high priced cloth for export to other countries.
>
> "2. * * * As you know, the question of removing control on imported cloth is being actively considered, and if it is decided to do away with that, subsidiary points raised by you, *viz.*, that the dealers should be allowed a higher margin than what is normally allowed to them, or that they may be given a free hand in disposing of these goods to whomsoever they like, will automatically be served."

15. During his examination by the sub-Committee, the representative of the Ministry of Commerce and Industry categorically stated that the purchase of Japanese cloth was not made for export, but to meet the local needs. The sub-Committee, however, find that even before the decision to re-export the entire cloth was taken on the 11th August, 1947, the Industries and Supplies Department had already decided to make available for export 21·45 million yards of Japanese cloth.

16. The sub-Committee also note in this connection the letter addressed by the All India Exporters' Association, Bombay to the Ministry of Commerce on the 6th September, 1947 wherein they pointed out that the Japanese textiles imported into the country had been very expensive and that it would be in the best interest of the country to allow them to be exported and also requested that the quotas relating to Japanese goods should be given extra and in addition to the ordinary regular quotas allowed to exporters of Indian textiles. They also suggested that if it was found difficult to allow

export of these goods to the controlled ports, the same might be allowed to the free ports. This request from the All India Exporters' Association, the sub-Committee observe, made clear that very high prices prevailed in the foreign markets and that the margin of profits that could be made by the quota-holders on such exports should be very high. This is also confirmed by the fact that the exporters purchased initially 44·86 million yards at 10 per cent. above the cost price.

17. The sub-Committee further note that when the scheme of re-export of Japanese cloth on the ground of earning foreign exchange was submitted to the Standing Finance Committee for approval in December, 1947, the Committee made the observation that trade should, as far as possible, be induced to take delivery of the cloth in Japan itself which would obviate the necessity of bringing the goods to India. Instructions were accordingly issued not to ship any more quantity from Japan.

The sub-Committee, however, regret to note that the Ministry of Industry and Supply had wrongly stated in the Memorandum submitted to the Standing Finance Committee that it was within the knowledge of the Government of India that the prices of cloth were higher than the corresponding prices in India. As already pointed out in para. 10 above, this information was known to the Textile Commissioner but was not made known to the Ministry. The sub-Committee observe that apparently the Ministry did not wish the Standing Finance Committee to know that a blunder had been committed in buying cloth at enormous cost without any comparison of prices. It is only after an irrevocable contract had been entered into that the Government of India became aware of the unfortunate situation they were in.

Profit and loss in the disposal of the cloth

18. In accordance with the recommendations of the Standing Finance Committee, 56·43 million yards of cloth were sold *ex*-Japan and they were exported direct from Japan to various destinations. Between February, 1948 and December, 1948, 44·86 million yards were sold at a profit of 10 per cent. above cost price. In February, 1949, the Indian Commercial Counsellor in Japan warned the Textile Commissioner, Bombay of the downward trend of prices in Japan and wanted him to take quick action for the disposal of the cloth held in Japan. In April, 1949, the Textile Commissioner wrote to the Ministry of Industry and Supply that in view of the falling prices, it would not be possible to sell the cloth at cost price plus 10 per cent. profit and he suggested the reserve price to be fixed at cost price in some cases and at a profit ranging from 2½ to 5 per cent. in other cases. The Ministry agreed to this and in May, 1949, a

global advertisement was issued but no offers were received. The remaining quantity of 34·15 million yards of cloth was thus sold by the Textile Commissioner at negotiated prices at very low rates after obtaining the permission of the Ministry. These sales were completed by November, 1949 involving a loss of Rs. 72 lakhs. The transaction as a whole thus resulted in a net loss of Rs. 55 lakhs.

19. The sub-Committee observe that when it was known to Government by July, 1947 that the only way to get out of the bad bargain was to export cloth to foreign markets when the prices were still high, all possible steps should have been taken to expedite and complete the disposal of cloth in the minimum time possible. Government capital to the tune of Rs. 6 crores had already been locked up. The dilatory processes which resulted in the disposal extending upto November, 1949 have been responsible for the loss of Rs. 55 lakhs. The sub-Committee further observe that no private trader with any business sense, would have held up the stocks purchased at high cost for so long especially when his fortune depended upon the ruling prices in foreign markets over which he had no control.

General

20. The sub-Committee find that this whole matter was dealt with by a few Officers of the Department of Industry and Supply. The main decisions were taken at the level of Deputy Secretary. The Secretary of the Department seems to have seen the file once or twice. At no stage was the file or proposal submitted to the Minister for his orders. Certainly, the Cabinet has been unaware of the whole transaction from beginning to the end. To the repeated questions of the sub-Committee, the representatives of the Ministry of Commerce and Industry were unable to show any evidence that any statement of the case had been prepared at any time or that the implications of the scheme studied in any detail either in a note or a memorandum. All that was shown to the sub-Committee were a few cryptic notes here and there of lower Officers who seem to have taken the whole responsibility in this case upon themselves. It was pleaded before the sub-Committee that it was sufficient that if the Minister had seen a stray telegram in dak his approval to the whole scheme was assumed although it was stated before the Public Accounts Committee that the Minister was consulted. The sub-Committee were surprised to find during the examination of the Officers that there were no uniform rules regulating the business of Government or various Ministries and Departments. It was contended before the sub-Committee that each Ministry followed its own methods of work and there was no uniformity of procedure for submitting cases to the Secretary, Minister or Cabinet. The sub-Committee find it difficult to believe that the Government business

is being run on these lines where each Officer in a Ministry is master of himself, but the way in which the case under examination has been dealt with leads the sub-Committee to think that there is room for tightening up the procedure and laying down rules which should regulate the conduct of the Governmental business in a more methodical manner.

21. The sub-Committee have not been given any papers or documents to show that Government took any steps to enquire into the matter after losses were reported in the Appropriation Accounts (Civil), 1947-48 (post-partition) and 1949-50. It was clearly the duty of Government to investigate into the matter& to fix responsibilities and to take such action as was deemed necessary against Officers who were found guilty, careless or negligent in their duty. Even now it is not too late to do so.

22. The sub-Committee also find that in making out the case for allocation of Japanese cloth to India, the Government of India made repeated references to the need for 'clothing the naked millions of rural India' and assured the authorities concerned that the cloth was needed for internal consumption, yet within a few months of the signing of the contract, proposals and suggestions were made for the re-export of cloth to other countries and eventually not a single yard was used for 'clothing the naked population'. The sub-Committee feel that it was wrong to have made out the case on one ground and used the cloth for altogether a different purpose. If all the implications had been studied in advance, it would have been clear that it was futile to make a request for allocation of Japanese cloth, to purchase the cloth and to use up dollars to the tune of Rs. Six Crores which if saved would have been useful for development purposes.

Recommendations

23. It has been established beyond doubt that the Japanese cloth was purchased without giving any consideration to the price factor. It was known to the Textile Commissioner that the prices of Japanese cloth were very much higher than the Indian prices ruling at that time but neither he nor the Ministry took any notice of it until an irrevocable agreement was signed by the Indian Ambassador, Washington. The sub-Committeee recommended that a Judicial Enquiry should be held immediately to fix responsibility for handling this transaction including the delay in the disposal of cloth and thereafter, action should be taken against the Officers who failed to safeguard the interest of the Public Exchequer.

The sub-Committee also urge that steps should be taken without any further loss of time to recover the sum of Rs. 15 lakhs outstanding from M/s. Banwari Lal & Co. If the amount is recovered from

this firm, the loss would be reduced to the extent of recovery. The expediency of instituting legal proceedings against the firm should also be considered.

24. The sub-Committee feel that the looseness of procedure which was responsible in the present case for the eventual loss of over half a crore of rupees to the Public Exchequer should be investigated by Government immediately and clear instructions laid down for future for the examination of proposals at all levels, namely, Cabinet, Ministerial and Secretarial. The present case has shown that there is still confusion of thought among the various Officers and the responsibilities are not properly apportioned between, and understood by the various authorities.

III

Proceedings of the First Meeting of the sub-Committee on the 'Import and Sale of Japanese Cloth' held on Tuesday, the 11th November, 1952.

The sub-Committee met from 5 p.m. to 6-30 p.m.

PRESENT

Shri T. N. Singh—*Chairman.*

Acharya S. N. Agarwal
Shri B. Ramachandra Reddi } *Members.*

(Shri B. Das, Chairman, Public Accounts Committee was present by special invitation.)

Shri V. Narahari Rao, Comptroller and Auditor-General of India.

Shri S. Gupta, Accountant-General. Food, Rehabilitation and Supply.

Shri R. P. Sarthy, D.A.D.S. (Lately A.G., F.R. & S.)

Shri A. Padmanabhan, Deputy Accountant-General, Industries and Supplies, Bombay.

SECRETARIAT

Shri S. L. Shakdher—*Officer on Special Duty.*

STATE TRADING SCHEME—IMPORT AND SALE OF JAPANESE CLOTH

25. The Deputy Accountant-General, I. & S., Bombay traced the origin of the State Trading Scheme named the 'Import and Sale of Japanese Cloth'. He stated that from an examination of the relevant files obtained by him from the Office of the Textile Commissioner. Bombay, he had found that in his letter dated the 5th March, 1947. the Chairman, Textile Board had recommended the purchase of 7 varieties but he had compared the prices of 5 of these varieties with Indian varieties and pointed out that the prices of Japanese cloth were very high. He left it to the Government of India to decide what quantity should be imported. In reply to a message dated the 5th March, 1947 from the Textile Commissioner, the late Ministry of Industry and Supply informed him towards the end of March, 1947 that the import of cloth was to be made on Government Account. The Joint Financial Adviser attached to the Office of the Textile Commissioner who was consulted by the latter recommended on the 28th April, 1947 that the material should be brought immediately to India and its distribution so arranged that no loss would result. On the 29th April, 1947, the Textile Commissioner immediately informed the Ministry that the prices were very high. To avoid loss, he

suggested that the import should be made through normal trade channels. The Ministry had noted on the file that the information came very late.

26. The D.A.G., I. & S., Bombay further stated that when the cloth arrived in India in August, 1947, it was examined and found that a loss would result if it was sold in India and so it was decided that the entire quantity should be allocated to the exporters. Out of 80 million yards, 24 million yards were brought to Bombay. After adding 10 per cent. to the landed price, the entire material was sold and a profit made out of it. Subsequently it was decided that it was not necessary to bring the remaining 56 million yards lying in Japan and that it should be exported direct from there. The margin of 10 per cent. was added to the sale price of 20 million yards. Subsequently, the Supreme Commander, Allied Powers, who was controlling the Japanese trade reduced the prices of Japanese cloth. So it became very difficult to sell the remaining quantity and it had to be sold at a loss. Thus the net result of the transaction was a loss of about Rs. 55 lakhs. This loss included an item of sale to Banwari Lal & Co., from whom the Textile Commissioner was not able to make any recovery. The firm had backed out of the contract after purchasing certain quantities of cloth when prices were coming down and it had to be sold to some one else at a lower price and the estimated loss sustained was Rs. 15 lakhs.

27. The sub-Committee referred to the statement made by Shri Bhoothalingam, Joint Secretary, Ministry of Commerce and Industry at the earlier meeting of the Public Accounts Committee that the purchase of cloth was made with the 'knowledge and approval of the (then) Minister'. Shri Sarthy, pointed out that from the files that Audit had seen, they had found an extract from the noting of the then Minister of Industry and Supply which referred only to the purchase of Japanese yarn. It was stated therein that although the Japanese yarn was costlier it might be useful for the Indian handloom weavers who had to pay black-market prices for yarn. Finally, Government did not get any yarn at all. There was no indication in the file submitted to Audit authorities that the Ministry of Industry and Supply had approved the transaction regarding the purchase and sale of Japanese cloth.

28. The sub-Committee then decided to examine the Secretary, Ministry of Commerce and Industry at 5 P.M. on the following day.

Proceedings of the Second Meeting of the sub-Committee on the 'Import and Sale of Japanese Cloth' held on Wednesday, the 12th November, 1952.

The sub-Committee met from 6 P.M. to 7-45 P.M.

PRESENT

Shri Tribhuan Narayan Singh—*Chairman.*

Acharya Shriman Narayan Agarwal
Shri B. Ramachandra Reddi } *Members.*

Shri R. P. Sarthy, Director of Audit, Defence Services (formerly Accountant General, F.R. & S.).

Shri S. Gupta, Accountant General, Food, Rehabilitation and Supply.

Shri A. Padmanabhan, Deputy Accountant General, Industry and Supply, Bombay.

Shri G. S. Rau, Officer on Special Duty (Office of the Comptroller and Auditor-General of India).

SECRETARIAT

Shri S. L. Shakdher—*Officer on Special Duty.*

WITNESSES

Shri Y. N. Sukthankar, I.C.S., Secretary, Ministry of Commerce and Industry.

Shri K. R. P. Aiyangar, Joint Secretary, Ministry of Finance (Commerce and Industry Division).

STATE TRADING SCHEME—IMPORT AND SALE OF JAPANESE CLOTH—*contd.*

29. The sub-Committee resumed examination of the financial working of the above scheme.

The Secretary, Ministry of Commerce and Industry stated that the main object behind the purchase of 80 million yards of Japanese cloth was that there was a scarcity of cloth in India towards the end of 1946 or in early 1947 and the Government were anxious to see that the people were clothed adequately. At that time, a message was received from the Indian Embassy, Washington that a good deal of cloth and yarn of Japanese production was available and could be sold to India only on payment in dollars. He further stated that after careful consideration, the Government of India decided in consultation with the Chairman, Textile Control Board, Shri Krishnaraj Thackersay to purchase seven varieties comprising 80 million yards of cloth which were considered suitable for Indian needs. He added that Government were aware of the high prices.

The production and prices of cloth were then under control. The final agreement for the purchase of the cloth in question was reached in April, 1947 and the cloth started coming in India sometime in August, 1947. By that time, the conditions were gradually changing. It was further made clear that out of the 80 million yards, not a yard was sold in India. Actually, it was re-exported but the corresponding quantity of cloth produced in India which ordinarily would have been exported under the 'Export quota' was made available for sale in India.

30. Referring to the two statements showing the quantities of cloth sold '*ex*-Bombay and *ex*-Japan' which had been furnished by the Ministry of Commerce and Industry, the sub-Committee wanted to know the implications of the terminology used therein. The Secretary, Ministry of Commerce and Industry stated that all the cloth was sold to the Indian exporters. The corresponding quantity of Indian cloth *viz.*, 24 million yards, which would have ordinarily been exported was sold in India. By way of elucidation, he further stated that the phraseology 'disposed of in India' did not imply that the cloth was sold to purchasers in India for local consumption although the original intention for importing it was to sell it in India in spite of the high prices prevailing at that time. The reason was that later on the Government feared that if they permitted the merchants to sell comparable varieties of Japanese cloth at very much higher prices, it would impair the success of their Cloth Control Scheme.

31. The representative of the Ministry of Finance then drew the attention of the sub-Committee to the extracts from the proceedings of the meeting of the Standing Finance Committee held on the 14th December, 1947 in which this matter had been discussed. The Secretary, Ministry of Commerce and Industry restating the reasons for the re-export of the Japanese cloth pointed out that the decision of the Government in that behalf was influenced by their desire to earn more Exchange although there had been a scarcity of cloth in India.

Explaining further, the representative of the Ministry of Finance stated that when the cloth actually arrived in India, it was found that it could not be marketed because of the price and a heavy import duty that had been imposed on the Japanese cloth at that time. The question then arose how the cloth could be disposed of advantageously. If it was disposed of in India and Indian cloth were exported, the amount of Exchange that they might have secured would not have been higher. On the other hand, they had to lower the sale prices for the imported cloth because price control was in force and they could not have got more foreign exchange for

Indian made cloth. To sum up, he said, it was a question of retrieving at least some of the foreign exchange that had been used in purchasing the Japanese cloth.

The Secretary, Ministry of Commerce and Industry stated that there was no denying the fact that this transaction had resulted in a net loss of Rs. 55 lakhs including the sum of Rs. 15 lakhs which was still in dispute.

Referring to foreign Exchange, he stated that they corresponded with the Government of the United States of America through their Embassy in Washington objecting to pay in dollars for goods which came from Japan. But finally their argument did not prevail and they had to pay in dollars.

When asked whether the Standing Finance Committee was consulted before entering into that deal, the representative of the Ministry of Finance stated that he was not aware of it.

32. Replying to another question why private trade channels were not utilised in this case, the Secretary, Ministry of Commerce and Industry stated that it was a Government-to-Government transaction. At that time private trade was not allowed with Japan.

The sub-Committee, however, desired to know whether any American private Companies made any application for being permitted to import cloth from Japan and dispose it of through their agencies. The Secretary, Ministry of Commerce and Industry promised to look into the matter. He, however, stated that an approach had been made to the Government of India through their Embassy in the United States of America for sale on a Government-to-Government basis.

On being further asked whether the Government of India had at any stage considered that it was possible to revise their decision to make the purchases on a Government-to-Government basis and to entrust the work to the private trade channels, he promised to look into the relevant files.

On a point being raised whether the 80 million yards of Japanese cloth were included in the export quota of 300 million yards sanctioned by the Government of India in 1947, the Secretary replied in the affirmative.

33. The sub-Committee further wanted to know whether the Textile Commissioner communicated to the Government of India the full text of the views expressed by the Chairman, Textile Advisory Board, Shri Thackersay about the high prices of cloth and the suitability of the various varieties to India. The Secretary, promised to look into the files and furnish the information.

34. The sub-Committee also wanted to know whether the statement made by Shri Bhoothalingam, Joint Secretary, Ministry of Commerce and Industry before the Public Accounts Committee that the approval of the Minister of Industry and Supply had been obtained to the purchase of the Japanese cloth accorded with the facts. The Secretary, Ministry of Commerce and Industry referred to a minute dated 30th April 1947 by the then Minister and also to a telegram which, it was stated, was approved by the then Secretary, Sir A. Waugh and also seen by the Minister. The sub-Committee, however, noted that the minute of the Minister related to Japanese yarn and not to the cloth and the telegram was seen by him at the receipt stage and there was no indication whether he had considered the matter in all its aspects either before the contract was entered into or even after that.

35. As regards the other point whether the Commerce and Finance Departments were referred to before the decision to make the purchase of the cloth from Japan was arrived at, it was stated that the Finance Department had been consulted at every stage. Their approval, it was added, was also taken to the release of foreign Exchange and allocation of surplus quantities of cloth. The contract was signed by the Indian Ambassador in the U.S.A. under instructions from the Ministry of Industry and Supply.

36. Before the sub-Committee adjourned, the Secretary, Ministry of Commerce and Industry suggested that as he was not fully conversant with the details of the case under discussion, the two Officers who had dealt with it in the late Departments of Industry and Supply and Finance *viz.*, Sarvashri M. P. Pai and A. K. Chanda might be called as they would be in a better position to state what had actually taken place at that time. The sub-Committee decided to ask these two Officers to appear before them on the next day.

Proceedings of the Third Meeting of the sub-Committee on the 'Import and Sale of Japanese Cloth' held on Thursday, the 13th November, 1952.

The sub-Committee met from 5 P.M. to 6-45 P.M.

PRESENT

Shri Tribhuan Narayan Singh—*Chairman.*

Acharya Shriman Narayan Agarwal
Shri B. Ramachandra Reddi. } *Members.*

(Shri B. Das, Chairman, Public Accounts Committee was present by special invitation.)

Shri V. Narahari Rao, Comptroller and Auditor-General of India.

Shri R. P. Sarthy, Director of Audit, Defence Services (formerly Accountant General, F.R. & S., New Delhi).

Shri S. Gupta, Accountant General, Food, Rehabilitation and Supply.

Shri A. Padmanabhan, Deputy Accountant General, Industry and Supply, Bombay.

Shri G. S. Rau, Officer on Special Duty (Office of the Comptroller & Auditor-General of India).

SECRETARIAT

Shri S. L. Shakdher—Officer on Special Duty.

WITNESSES

Shri Y. N. Sukthankar, I.C.S., Secretary, Ministry of Commerce and Industry.

Shri A. K. Chanda, Financial Commissioner, Ministry of Railways.

Shri M. P. Pai, I.C.S., Joint Secretary, Ministry of Works, Housing and Supply.

Shri K. R. P. Aiyangar, Joint Secretary, Ministry of Finance (C. & T. Division).

STATE TRADING SCHEME—IMPORT AND SALE OF JAPANESE CLOTH—*contd.*

37. The sub-Committee resumed further examination of the Secretary, Ministry of Commerce and Industry in regard to the working of the above scheme.

The Secretary, Ministry of Commerce and Industry informed the sub-Committee that the export quota of 300 million yards of cloth sanctioned by the Government of India in 1947 was made up of 220 million yards of Indian cloth and 80 million yards of Japanese cloth.

He recapitulated the statement made by him at the earlier meeting that not a yard of the cloth in question was sold in India. That was all exported. Explaining the reasons for buying the Japanese cloth, he restated that the cloth consumption had at that time come down appreciably to something like 11 yards as against 14 yards *per capita* previously and it was, therefore, considered necessary to provide cloth irrespective of the cost. Later on, production improved and it was realised that the cost of the Japanese cloth was very much higher than the control prices ruling in India and it was, therefore, decided to re-export that cloth, as world conditions were favourable and cloth prices were much higher in the other countries. That was borne out by the fact that the first 44 million yards of cloth were sold at a profit, whereas on the remaining lot Government incurred a loss. The net loss after taking into account the profits made on the earlier lot came to Rs. 55 lakhs, including the sum of Rs. 15 lakhs outstanding against Banwarilal & Co., which was in dispute.

38. Answering a question whether the Government of India made the purchase of Japanese cloth purely for maintaining their export markets, the Secretary, Ministry of Commerce & Industry replied in the negative. He added that in fact the purchase was not made for export, but to meet the local needs. In reply to another question, he stated that the samples of cloth were obtained and the prices at which the supply was forthcoming were communicated to the Textile Commissioner and his advice was sought both as to the suitability of those articles and their prices as also their saleability. The Textile Commissioner, he said, obtained the advice of the Chairman, Textile Advisory Board who had definitely stated that the prices were 46 to 126 per cent. higher than the prevailing prices in India. He further stated that it was a fact that the Textile Commissioner did not comment on the prices in his reply but referred only to their suitability. The case, he added, was discussed at all levels, several times it had gone to the Secretary and to the Minister in-charge who had actually seen the telegram to the Textile Commissioner.

39. When asked by the sub-Committee to state the various stages at which the case was dealt with, Shri Chanda who was then the Financial Adviser, Supply, stated that he was only concerned at that stage with the making out of a case for an allocation. There was a shortage of cloth at that time and he had agreed to ask for an allocation. There also, he said, he had made a stipulation that if they were going to make payment in dollars, then the Government of India should ask for payment for the cotton bales sold to Japan also in dollars.

40. Shri Pai, who was then the Joint Secretary, Industry and Supply Department stated that he too saw the file on the same day as Shri Chanda saw it. The then Minister, he added, had had a general discussion on the purchase of cloth. Replying to a question, he stated, that they could not make any comparison of prices between the Japanese cloth and the Indian cloth. That was the reason that a reference had to be made to the Textile Commissioner, Bombay. Some constructions numbered 1025 etc. were given to them of which they had no idea. The prices were given but they could not compare them with the Indian prices.

41. The sub-Committee then wanted to know whether there was any difficulty in importing the cloth through the ordinary trade channels. The Secretary, Ministry of Commerce and Industry stated that Japan was an occupied territory. No private trade was allowed with that country till the 3rd July, 1947. Shri Chanda stated that what actually happened was that the late Commerce Department wrote to the Supply Department on the 6th January, 1947 enclosing copies of two telegrams from the Indian Embassy Washington asking that they would like to know the quantity of Japanese cloth in regard to which India was interested. It was not a question of private trade. It was a question of a definite allocation being made on a Government basis. Shri Pai added that there were no facilities for remittance. Any private trade would have had to operate on the Government of India Account in Japan. He further said that at that time not only production of cloth was controlled but its prices and distribution were also controlled.

42. Shri Sarthy, formerly Accountant-General, F. R. & S. drew the attention of the sub-Committee to a letter from Shri Manekji Jaisinghji which he had seen in one of the files of the Ministry of Commerce and Industry. That gentleman had said that his principals contacted the Chairman, U.S. Commercial Corporation through whom the whole deal passed and he was willing to release so many million yards of cloth to India through trade channels. He wanted an import licence and exchange and to this the reply given by the Government of India was not that that transaction could not take place through the trade channels but they could not make a discrimination in his favour. The Secretary, Ministry of Commerce and Industry stated that he had not seen the papers.

43. The sub-Committee then pointed out that although the Audit Report, 1951 which disclosed a loss of Rs. 55 lakhs in this transaction had been available to the Ministry of Commerce and Industry in October, 1951, yet it appeared that no action had been initiated by that Ministry to investigate into it.

Proceedings of the Fourth Meeting of the sub-Committee on the 'Import and Sale of Japanese Cloth', held on Wednesday, the 26th November, 1952.

The sub-Committee met from 5 P.M. to 6-30 P.M.

PRESENT

Shri Tribhuan Narayan Singh—*Chairman.*

Acharya Shriman Narayan Agarwal
Shri B. Ramachandra Reddy } *Members.*

(Shri B. Das, Chairman, Public Accounts Committee was present by special invitation.)

Shri V. Narahari Rao, Comptroller & Auditor-General of India.

Shir R. P. Sarthy, Director of Audit, Defence Services (formerly Accountant-General, Food, Rehabilitation and Supply).

Shri S. Gupta, Accountant-General, Food, Rehabilitation and Supply.

Shri G. S. Rau, Officer on Special Duty, Comptroller and Auditor-General's Office.

SECRETARIAT

Shri S. L. Shakdher—*Deputy Secretary.*

WITNESSES

Shri Y. N. Sukthankar, I.C.S., Secretary, Ministry of Commerce and Industry.

Shri K. R. P. Aiyangar, Joint Secretary, Ministry of Finance (C. & I. Division).

Shri S. A. Tekchandani, Under Secretary, Ministry of Commerce and Industry.

STATE TRADING SCHEME—IMPORT AND SALE OF JAPANESE CLOTH—*contd.*

44. The sub-Committee resumed further examination of the financial working of the State Trading Scheme 'import and Sale of Japanese Cloth'.

45. The Comptroller and Auditor-General informed the sub-Committee that he in consultation with the Secretary, Ministry of Commerce and Industry had gone into the matter and the files of the Textile Commissioner's Office and in the light of the observations made by the sub-Committee during their earlier meetings. He pointed out that the reply to the specific enquiry made by the then Textile Commissioner from the late Ministry of Industry and Supply on the 5th March 1947 'whether imports were being arranged as Government transaction or whether they would be through trade channels' was not sent until the 28th March, 1947. He observed that it was rather astonishing that the reply on that point should have been delayed until after the Ministry of Industry and Supply had authorised the Indian Embassy, Washington to proceed with the contract. It was on the 28th March, 1947 that the Ministry had sent a telegram to the Textile Commissioner that the transaction was on Government account. He further pointed out that the Chairman, Textile Control Board's statement of prices f.o.b. Japan and his comments showed that including transport and other charges the landed cost of Japanese cloth in India would be 45 to 100 per cent. higher than the prevailing *ex*-mill ceiling prices of similar variety of cloth in India. The landed cost of the Japanese Cloth in India, did not, however, include the Customs Duty which would have to be paid in such imports.

46. The Comptroller and Auditor-General stated that the Textile Commissioner himself advised the Government of India on the 5th March 1947 to go in for the various varieties of the Japanese cloth, although he should have been fully aware of the width of the cloth, as the full specification and samples had been sent to him. The idea of re-export was not accepted in the initial stages by the Ministry of Industry and Supply who considered that India's reputation abroad might suffer inasmuch as the cloth which India had not produced would pass off in the export market as Indian cloth at very high prices. They were then still of the view that that cloth should be sold in the country to dealers, who should be given a free hand in disposing it to whomsoever they liked without any control.

47. As regards the financial implications of the transaction the Comptroller and Auditor-General pointed out that these were already known to the Finance Department (O.B.) as early as the 25th April, 1947 and they had agreed not to oppose the import of cloth on foreign exchange grounds although it was brought to their notice that the dollar commitments according to revised estimates would amount to 17·92 million dollars in the case of cloth alone. The Sterling Balances Agreement did not come into operation until the 15th August, 1947, by which the 4¾ million dollars had already been paid from H.M.G.'s Central Reserves. Moreover, by the

middle of August 1947, adequate convertible currency had been released to the extent of £65 million for 6 months ending 15th January, 1948. To sum up, he stated that any panic on the score of foreign exchange was, therefore, unfounded.

48. The Comptroller and Auditor-General further apprised the sub-Committee of the letter addressed by the All India Exporters' Association, Bombay to the late Ministry of Commerce on the 6th September, 1947 wherein they pointed out that the Japanese textiles imported into the country had been very expensive and that it would be in the best interest of the country to allow them to export the cloth to other countries and also requested that the quota relating to Japanese goods should be in addition to the ordinary regular quotas allowed to exporters of Indian Textiles.

He then drew the attention of the sub-Committee to the observations made by the Standing Finance Committee in December, 1947 when the whole scheme was submitted to them for sanction that trade should, as far as possible, be induced to take delivery of those goods in Japan itself which would obviate the necessity of bringing the goods to India.

49. The Secretary, Ministry of Commerce and Industry accepted the facts as set forth in the above observations made by the Comptroller & Auditor-General.

50. The sub-Committee then proceeded to examine Shri Tekchandani, Under Secretary, Ministry of Commerce and Industry who had handled the case at the time the cloth was imported from Japan. They wanted to know why it did not occur to him that when they were going to purchase so many million yards of cloth for sale in India, the Ministry should satisfy itself that the cost at which it would be imported should be such that they would be able to sell it in the country. In reply, he stated that at that time the cloth position was so desperate that they wanted the transaction to be hastened as any delay would have deprived them of any allocation. Further at that time, they in the Ministry did not know the prices of comparable varieties of Indian cloth although they knew the prices of the Japanese cloth. The prices, he added, were being fixed by the Textile Commissioner.

51. Before concluding, the sub-Committee observed that although the fact that a loss of Rs. 55 lakhs had been caused to the Government of India as a result of this transaction had come to their knowledge about 3 years ago, yet no action had been taken by them to investigate into the matter.

Proceedings of the Fifth Meeting of the sub-Committee on the 'Import and Sale of Japanese Cloth' held on Thursday, the 5th February, 1953.

The sub-Committee met from 10-30 A.M. to 1 P.M.

PRESENT

Shri T. N. Singh—*Chairman.*

Acharya S. N. Agarwal—*Member.*

Shri S. Gupta, Accountant-General, Food, Rehabilitation and Supply, New Delhi.

Shri G. S. Rau, Officer on Special Duty, Office of the Comptroller and Auditor-General of India, New Delhi.

SECRETARIAT

Shri S. L. Shakdher—*Deputy Secretary.*

52. At the outset, the Chairman informed the sub-Committee of the contents of a letter from Shri B. Ramachandra Reddy, a Member of the sub-Committee wherein he had conveyed his approval to the draft report on the 'Import and Sale of Japanese Cloth' and also requested for leave of absence from the meeting of the sub-Committee fixed for the day.

53. The sub-Committee then considered the draft report on the 'Import and Sale of Japanese Cloth' and approved it subject to minor additions and alterations here and there.

54. The sub-Committee authorised the Chairman to submit the Report to the whole Committee for their consideration.

IV

Proceedings of the Meeting of the Public Accounts Committee held on Tuesday, the 17th February, 1953

The Committee met from 10 A.M. to 1-15 P.M.

PRESENT

Shri B. Das—*Chairman.*

Shri Shree Narayan Das
Shri T. N. Singh
Shri H. V. Pataskar
Shri Ranbir Singh Chaudhuri
Acharya S. N. Agarwal
Shri Uma Charan Patnaik
Shri V. P. Nayar
Shri B. Ramachandra Reddi
Shri G. D. Somani

} *Members.*

Shri G. S. Rau, Officer on Special Duty, Office of the Comptroller and Auditor-General of India.

SECRETARIAT

Shri S. L. Shakdher—*Deputy Secretary.*

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***The Committee then proceeded to take up consideration of the Report of the sub-Committee on the 'Import and Sale of Japanese Cloth' and approved it. They also decided to make the following recommendation while submitting their Report to the House:

"The Committee wish to draw attention to para. 23 of the Report of the sub-Committee and observe that neither the sub-Committee nor the Committee have investigated into the antecedents of Messrs. Banwarilal and Co., against whom a sum of Rs. 15 lakhs is said to be outstanding. The Committee desire to know whether the financial position of this Company had been ascertained before the cloth was sold to it and on what reference and guarantees the transaction was entered into with it. The Committee feel that the Judicial Committee recommended to investigate into the handling of the whole transaction should also enquire whether the financial

***The earlier portion relates to the Draft Report of the Public Accounts Committee on the Appropriation Accounts (Railways) and (Posts & Telegraphs), 1949-50 and Audit Reports thereon.

standing of the Company had been properly verified by the Officers concerned before entering into any business dealings with it."

2. The Committee authorised the Chairman to present the above Report to the House on the 20th February, 1953.

APPENDIX I

SUMMARY OF THE RECOMMENDATIONS OF THE FOURTH REPORT OF THE PUBLIC ACCOUNTS COMMITTEE

Serial No.	Paragraph of the Report of the sub-Committee	Ministry concerned	Recommendations
1.	23	Commerce & Industry / Finance	A judicial enquiry should be held immediately to fix responsibility for handling this transaction including the delay in the disposal of cloth and thereafter action should be taken against the Officers who failed to safeguard the interests of the Public Exchequer.
2.	23	Do.	Steps should be taken without any further loss of time to recover the sum of Rs. 15 lakhs outstanding from Messrs. Banwari Lal & Co. The expediency of instituting legal proceedings against the firm should also be considered.
3.	24	Home Affairs	The looseness of procedure which was responsible in the present case for the eventual loss of over half a crore of rupees to the Public Exchequer should be investigated by Government immediately and clear instructions laid down for future for the examination of proposals involving huge financial commitments at all levels, namely, Cabinet, Ministerial and Secretarial.
4.	Para. 3 of the Introduction to the Report of the Public Accounts Committee	Commerce & Industry / Finance	The Committee may be informed whether the financial position of Messrs. Banwari Lal & Co. had been ascertained before the cloth was sold to it and on what references and guarantees the transaction was entered into with it. The Judicial Committee recommended to investigate into the handling of the whole transaction should also enquire whether the financial standing of the Company had been properly verified by the Officers concerned before entering into any business dealings with it.

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